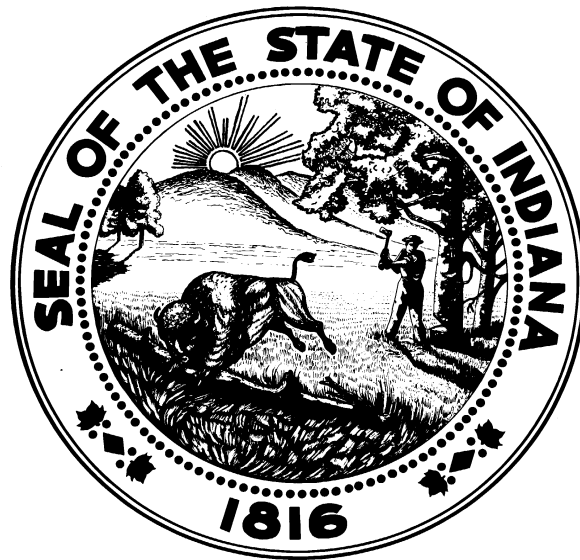


# **Report on Award Maxima Determinations**



**March 15, 2012**

**State Student Assistance Commission of Indiana**

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# STATE OF INDIANA

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**To:** The General Assembly

**From:** Mary Jane Michalak, Executive Director  
State Student Assistance Commission of Indiana

**Date:** March 15, 2012

**Subject:** Report on Award Maxima Determination Academic Year 2011-12

The attached Report on Award Maxima Determination Academic Year 2011-12 ("Report") is filed in accordance with IC 21-12-11-4. The Report, prepared by the State Student Assistance Commission of Indiana ("Commission"), presents determinations for the annual maximum base award for each Frank O'Bannon Grant for the academic year 2011-12, fiscal year 2012.

After the Commission has made its determinations for the annual maximum base award for each Frank O'Bannon grant and made any adjustments necessary to stay within the appropriation given by the General Assembly for each grant, each academic year beginning with the 2011-2012 academic year, Indiana Code calls for the Commission to report these determinations and adjustments to the General Assembly in an electronic format under IC 5-14-6. The report must clearly and transparently delineate the methods and factors used by the Commission in setting the maximum base awards for each Frank O'Bannon grant, including any necessary adjustments necessary to stay within the appropriations made for Frank O'Bannon grants.

The report will be posted on the Commission's website at <http://www.in.gov/ssaci/2394.htm>. As always, please feel free to contact me at 317.234.5664 or [mjmichalak@ssaci.in.gov](mailto:mjmichalak@ssaci.in.gov) with any questions.

# Report on Award Maxima Determination

**April 1, 2012**

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## **General Information and Background**

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The State Student Assistance Commission of Indiana's ("SSACI") mission is to make college affordable through need-based grants and to allow choice by granting awards to those attending public, independent & proprietary colleges. SSACI attempts to increase college preparation through its 21<sup>st</sup> Century Scholar program and by giving increased grant amounts to those graduating from high school with Academic or Technical Honors Diplomas.

The grants that SSACI administers fit into one of two categories: those allocated to students by SSACI directly ("offered awards") and those allocated to students by SSACI's partnering institutions of higher education ("billed awards"). For billed awards, an institution is allotted a certain amount of funding and bears the responsibility of offering aid without exceeding its budget. For offered awards, SSACI bears the responsibility for ensuring that the total grants used by students statewide do not exceed the available budget, as appropriated by the Indiana General Assembly. SSACI's largest programs – the Higher Education Award and Freedom of Choice Grants collectively known as Frank O'Bannon Grants and the 21<sup>st</sup> Century Scholarship program – are offered awards.

While the 21<sup>st</sup> Century Scholarships must be funded in full as an entitlement to students attending public schools, SSACI controls the cost of the Frank O'Bannon Grants and the non-public 21<sup>st</sup> Century Scholarships by setting a maximum dollar amount available to each student ("award maxima" or "caps"). Each year, SSACI uses the information from the student-filed Free Application for Federal Student Aid (FAFSA) forms and the tuition information submitted by all Indiana postsecondary institutions to model a budget impact and set the appropriate caps. For the 2011-2012 academic year, the Frank O'Bannon Grant caps were set at \$3,912 for students attending public universities; \$7,056 for students attending private universities; and \$3,256 for students attending proprietary institutions<sup>1</sup>. For 21<sup>st</sup> Century Scholarships, which are full entitlements only for students in public schools, caps were set at \$7,126 for students attending private universities, and \$3,354 for students attending proprietary institutions.

The following sections provide more detail about the methods and factors used in setting the award maxima for the 2011-2012 academic year.

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<sup>1</sup> Pursuant to IC 21-12-3-5, the cap for proprietary institutions is equal to the tuition that was charged to students attending Ivy Tech Community College.

## **Factors Used to Set Award Maxima**

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The caps are set to maximize the aid that is distributed subject to the available budget. 21<sup>st</sup> Century Scholarships must be paid in full, drawing funding from the Frank O'Bannon program as necessary. Therefore, the budgets of both programs are combined for the purpose of setting the caps.

The available budget comprises the appropriations laid out by the Indiana General Assembly in the biennial budget bill, plus any unused appropriation carried over from the previous budget, less any reserves kept to manage SSACI's risk in the event that awards are claimed at a higher-than-expected rate. For the 2011-2012 academic year, the appropriated funding for the 21<sup>st</sup> Century Scholar Program and the Frank O'Bannon Grants combined was \$235,300,000. SSACI had \$30 million in reserves in these funds from the previous year. SSACI elected to allow approximately \$10 million of that to be carried into the next year and offered as grants, while approximately \$20 million will continue to be held in reserves for use during the 2012-2013 academic year. The net available funding for the three programs combined was \$244,976,380.

Given a particular available budget, the determination of the caps depends on the expected usage of the programs. Therefore, the most important component of the cap-setting procedure is a student-level model of expected aid. To create this model, SSACI collects and analyzes the information detailed below.

### **Information Collected through the Free Application for Federal Student Aid (FAFSA)**

**Student residency and other eligibility factors.** Students are eligible for Frank O'Bannon Grants if they are an Indiana resident, obtaining their first bachelor's degree, and have not utilized the maximum eight (8) semesters of allowable aid.<sup>2</sup>

**The institution that the student plans to attend.** This helps SSACI determine whether the student should be held to public, private, or proprietary caps. It also allows SSACI to calculate the amount a student will be offered.

**Student's financial need.** SSACI relies upon the federally-calculated Parent Contribution ("PC") for dependent students and Expected Family Contribution ("EFC") for independent students, in accordance with the HEA 1001-2011 (the current biennial budget). Students' needs are calculated as the tuition and fees for the institution they plan to attend, minus the PC/EFC provided by the Federal Department of Education.

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<sup>2</sup> Other eligibility factors were introduced in SEA 577-2011, including minimum GPA requirements, maximum duration, and participation in preparedness programs, but those do not affect students applying for grants in AY 2011-2012.

### **Information Collected from Indiana High Schools through the Core 40 with Academic or Technical Honors Internet Update System (“CHIPS”)**

**High School Diploma Type.** Students receiving regular high school diplomas will be offered a grant equal to 80% of the financial need, while those receiving CORE 40 and Academic Honors diplomas will be offered 90% and 100% of financial need, respectively.

### **Information Collected from Postsecondary Institutions**

**University tuition data.** HEA 1001-2011 requires that Frank O’Bannon Grants be offered based on prior year tuition and fees. 21<sup>st</sup> Century Scholarships, on the other hand, must fully fund the current-year tuition. SSACI requests that universities complete a Tuition Survey providing the expected tuition and fees for the upcoming academic year. Whenever actual upcoming year tuition is unavailable, SSACI estimates the tuition by applying a growth factor to the prior year amount.

### **Information Calculated from SSACI’s Internal Database**

**21<sup>st</sup> Century Scholars Enrollment.** Knowing whether or not a student is enrolled in the program allows SSACI to model eligibility for the 21<sup>st</sup> Century Scholarships.

**Utilization Rates.** A utilization rate is the percentage of the amount or number of grants that students claim divided by the total amount or number offered by SSACI for a particular year. For example, if a student were offered an award of \$1,000 but only claimed \$750, that student’s utilization rate would be 75%. The utilization rate is almost always less than 100% (meaning less money is claimed than is offered) for a number of reasons.

- Students may apply for and be offered a grant but subsequently decide not to attend the eligible school. (Students may change their attendance to an out-of-state institution or decide not to attend at all.) Student would claim no part of the offered award.
- Students may apply for and be offered a grant but subsequently decide to attend a different school that has lower tuition cost. In this case, the original award would exceed the students’ need at the new school. (Remember that students’ need is the tuition and fees minus PC/EFC.) Students would claim an amount less than the offered award.
- Students may apply for and be offered a grant but subsequently decide to attend a different school that has higher tuition cost. In this case, the original award would be less than the students’ need at the new school. Students would claim an amount *greater than* the offered award, provided the new need amount does not exceed the set caps.
- Students may take fewer than 15 credit hours. Some institutions calculate tuition on the basis of the number of credit hours. When SSACI sets caps, it assumes 15 credit hours per student. If students take fewer credit hours, then the offered award would exceed the students’ need. Students would claim an amount less than the offered award.
- Students’ cost may be reduced by federal grants (such as the Pell Grant) before the state grants are applied. SSACI does not know what federal aid will be offered prior to offering awards to students. Therefore, the simple calculation of student need (tuition and

fees minus PC/EFC) would not take this into consideration. Most federal aid is applied before state aid, which means that the SSACI-calculated awards would be more than required to pay students' full costs. Students would claim an amount less than the offered award.

Utilization rates are calculated by dividing the amount of aid actually claimed by students throughout the academic year with the amount originally offered to students in the summer before the academic year begins. Separate rates are calculated for the total dollars offered and the total number of students. Rates are also segregated by college type (public, independent, and proprietary) and grant type (Higher Education Award, Freedom of Choice, 21<sup>st</sup> Century Scholar). The rates are calculated as aggregates. For example, SSACI divides the total amount of grants claimed by the total amount offered, as opposed to performing this calculation separately for each student. The use of utilization rates to set the caps is detailed in the following section.

## Method Used for Calculating Award Maxima

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After it collects all of the information detailed in the previous section, SSACI models the amount of grant that it expects to offer each student for the upcoming academic year. Student data from the FAFSA that is clean and on-time as of May 15, even if it was not clean the day before or the day after, will be included in the model. All other data should have been submitted and received by this time. The result of this modeling is a picture of expected usage of the award funding.

**In general, the expected budget impact (assuming no capping of the Frank O'Bannon Grants) is equal to the total expected offers times the utilization rate from the previous year.** For the purpose of setting the caps, SSACI focuses on the utilization rates calculated based on dollars offered, not number of students.

Once the model has been run with the assumption of no capping, the expected budget impact is compared to the available funding (the appropriation plus any funds carried over from the previous year). In recent years, including the 2011-2012 academic year, this comparison shows that the budget impact of uncapped grants is above the available funding. This means that caps are needed to stay within the available funding. Once this fact is confirmed, SSACI then introduces caps into the model.

For the next stage of the process, SSACI performs multiple “runs” of the model based on an array of possible cap levels. The student eligibility and need data are calculated in the same way as the uncapped model; the only difference is that the expected offered award is limited to the lesser of the financial need or the applicable cap. When the results of each “run” are analyzed, they indicate which of the possible cap levels will maximize the aid offered to students while staying within the available budget. The set of caps that results in this maximization are selected and set as the official caps for the upcoming academic year.



## Timing of the Data Collection and Setting of Awards

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Students may begin filing FAFSAs in January of a given year. Students wishing to apply for SSACI-offered aid must have their FAFSA submitted by March 10th, pursuant to SSACI policy. SSACI then analyzes the applications and identifies those that may have errors or other problems. Applicants are notified, and must make the required corrections and edits by May 15th.

In 2011, SSACI distributed the Tuition Survey to postsecondary institutions on April 6th and requested that all surveys be completed and returned by May 6th.

Indiana High Schools were asked to submit CORE 40 and Honors Diploma information through SSACI's CHIPS system by February 27, 2011.

Therefore, SSACI received all required data by May 15th and began the process described in the previous section. This work is completed and reviewed over the next four weeks, and the caps are then set in mid-June. At that point, SSACI immediately calculates the award for each student and sends notification letters to the student and to the institution the student plans to attend.

**Table 1: The Timing of Award Applications**

	January	February	March	April	May	June	July
<b>Student Action</b>	January 1 - March 10 FAFSA Filed		March 10 - May 15 FAFSA Edit Corrections				
<b>Institution Action</b>			March 12 - April 13 Report Tuition				
<b>SSACI Action</b>			February 22 - May 15 Notify Students of Edits			May 15 - June 15 Set Caps	June 15 and thereafter Create Awards

While SSACI sets the caps and calculates the award offers in June, the true budget impact for the academic year will not be known until the close of the second semester (May 2012), when all the awards have been claimed or declined.

## Budget Impact by Program

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Since the 21<sup>st</sup> Century Scholarships are fully funded regardless of the appropriated budget, SSACI expects it will need to transfer \$25.5 million from the Freedom of Choice fund to the 21<sup>st</sup> Century Scholars fund for AY 2011-2012. Based on the relative usage of the two components of the Frank O'Bannon Grants, SSACI also expects that it will need to transfer \$1.5 million from the Freedom of Choice Fund to the Higher Education Award fund. Note that utilization rates are historically low.

## APPENDIX A: DETAILED CALCULATION OF EXPECTED BUDGET IMPACT

<b>Expected Budget Impact Under Selected Cap Levels</b> <i>(Public=\$3,912; Private=\$7,056; Proprietary=\$3,256)</i>	
<b>Total Expected \$ Offered</b>	<b>\$489,849,150</b>
<b>Overall Utilization Rate</b>	<b>50.01058%</b>
<b>Expected Budget Impact</b>	<b>\$244,976,379</b>
<b>Total Available Funding</b>	<b>\$244,976,380</b>

	Table 1a: Total Expected Offers (\$ of grants)			Table 1b: Total Expected Offers (# of students)		
	Higher Educ. Award	Freedom of Choice	21st Century	Higher Educ. Award	Freedom of Choice	21st Century
Public	\$141,932,984		\$60,594,552	49,338		11,435
Private	\$50,856,595	\$41,621,216	\$5,620,746	19,297	19,297	2,222
Proprietary	\$29,486,281		\$1,043,597	11,902		918
Out-of-State*	\$665,046			237		
2-Year Public	\$150,076,025		\$7,952,108	60,495		6,067
<b>Overall</b>	<b>\$373,016,931</b>	<b>\$41,621,216</b>	<b>\$75,211,003</b>	<b>141,269</b>	<b>19,297</b>	<b>20,642</b>

	Table 2a: Previous Year Utilization Rate (\$ of grants)			Table 2b: Previous Year Utilization Rate (# of students)		
	Higher Educ. Award	Freedom of Choice	21st Century	Higher Educ. Award	Freedom of Choice	21st Century
Public	61.05%		74.81%	72.73%		85.77%
Private	61.05%	61.04%	79.46%	71.08%	71.08%	81.04%
Proprietary	41.44%		54.34%	60.02%		70.16%
Out-of-State*	52.12%			66.45%		
2-Year Public	23.26%		50.86%	35.58%		61.77%
<b>Overall</b>	<b>43.70%</b>	<b>61.04%</b>	<b>72.50%</b>	<b>57.88%</b>	<b>71.08%</b>	<b>78.16%</b>

	Table 3a: Expected Budget Impact (\$ of grants)**			Table 3b: Expected Budget Impact (# of students)		
	Higher Educ. Award	Freedom of Choice	21st Century	Higher Educ. Award	Freedom of Choice	21st Century
Public	\$86,650,087	\$0	\$45,330,784	35,884	0	9,808
Private	\$31,047,951	\$25,405,590	\$4,466,245	13,716	13,716	1,801
Proprietary	\$12,219,115	\$0	\$567,091	7,144	0	644
Out-of-State*	\$346,622	\$0	\$0	157	0	0
2-Year Public	\$34,907,683	\$0	\$4,044,681	21,524	0	3,748
<b>Overall</b>	<b>\$165,171,458</b>	<b>\$25,405,590</b>	<b>\$54,408,800</b>	<b>78,425</b>	<b>13,716</b>	<b>16,000</b>

\*Out-of-State universities may contract for space at Indiana institutions and are therefore included in the definition of SSACI-eligible institutions.

\*\*Calculated using utilization rate rounded to 13 decimal places. Results may differ from those calculated using rates as displayed on Table 2a.